

STATE OF VERMONT
OFFICE OF THE STATE TREASURER
SHORT-TERM INVESTMENT GUIDELINES

Adopted June 30, 2000
Revised August 1, 2004
Revised November 1, 2004
Revised February 25, 2005

Objectives

The statutory guidelines for permissible investments are cited in Title 32 Section 433 of Vermont state law. All investments must fall within the broad categories as outlined in Section 433. In addition, the statute also states:

“(b) Investments of state funds shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” and

“(c) Investments of state funds shall be made in accordance with written guidelines adopted by the treasurer. Such guidelines shall address liquidity, diversification, safety of principal, yield, maturity and quality and capability of investment management, with primary emphasis on safety and liquidity.”

These written investment guidelines have the following objectives (in order of importance): (1) to preserve the principal of the invested funds; (2) to provide sufficient liquidity to meet anticipated cash needs; and (3) to maximize the return on investments subject to guideline restraints.

Definition of Short-Term Investments

Short-term investments consist of any cash, publicly traded investment grade securities, or any other investments as described in these guidelines or state law. These securities, supplemented by ongoing cash flow, should be available to pay claims and other expenses coming due within one year. At all times, the need for satisfactory yield levels will be superseded by protection of the principal and the potential need of the State of Vermont for liquidity.

Eligible Short-Term Investments

- a. All U. S. Government securities backed by the "full faith and credit" of the United States, its agencies and instrumentalities; fully collateralized repurchase agreements whose underlying collateral consists of such obligations;
- b. Certificates of deposit or other evidences of deposit at banks and savings and loan associations approved by the Treasurer. The level of collateralization will be determined by the Office of the State Treasurer based on a quarterly review of bank financial data, regulatory capital, and ratings from nationally recognized independent rating firms. Where collateral is required, it will consist of US Government and/or Agency securities, Vermont Municipal Notes, or other collateral acceptable to the Office of the State Treasurer. In those cases of collateralization, the institution holding the securities must segregate the collateral in a separate trust or Federal Reserve account. No commingling of collateral with other assets of the institution is allowed. The full amount of FDIC guarantee can be used as a portion of the collateral requirements.
- c. Prime bankers' acceptances, which shall mean bankers' acceptances that are eligible for purchase by the Federal Reserve System, and trade in an active secondary market.
- d. Prime commercial paper, which shall mean commercial paper of "prime" quality as defined by two nationally recognized statistical rating organizations that rate such securities. Preference will be given to commercial paper with an A1+/P1/F-1 rating, however A1/P1/F-1 rated paper is permissible. The long-term rating of the issuer's debt must be "A". All permissible commercial paper must trade in an active secondary market.
- e. Tax-exempt securities exempt from federal arbitrage provisions applicable to investment of proceeds of this state's tax-exempt debt obligations.
- f. Domestic money market funds regulated by and in good standing with the Securities and Exchange Commission; such mutual funds must be entirely composed of authorized investments.

Prohibited Investments

Investments that are exceptions to these guidelines may not be purchased. The following investments are specifically prohibited:

- a. Derivative securities;
- b. Real estate, direct mortgages or real estate investment trusts;
- c. Commodities;

- d. Short sales and margin purchases;
- e. Oil, gas, mineral, or other types of leases;
- f. Common stock;
- g. Structured notes.

Communications/Notification

The institution which holds the State of Vermont's investments will provide the Treasurer's office with monthly reports on account investment activity as well as collateralization levels if collateral is required. The institution will periodically report to the Treasurer's office to ensure that investments meet the investment guidelines. In the event of a ratings downgrade below the minimum acceptable quality level stated herein, the institution from which the State has purchased the investment shall contact the Treasurer's office immediately. The investment will be liquidated as quickly as possible without unduly jeopardizing the principal.

Performance Measurement

The following benchmarks will be used in evaluating short-term investment performance:

- a. the average daily Federal Funds Rate for the period of investment, or
- b. the average three-month U.S. Treasury Bill Auction Rate for the equivalent period.

Regulatory Compliance

The investments of the State of Vermont will be managed in compliance with investment statutes for the State of Vermont and any rules or regulations thereof. The burden for understanding laws, rules, or regulations falls upon the institution participating in the State of Vermont's short-term investment program.

Maturity

Short-term investments, supplemented by ongoing cash flow, should be available to pay claims and other expenses coming due within one year. At all times, the need for satisfactory yield levels will be superseded by protection of the principal and the potential need of the State of Vermont for liquidity.

Diversification

Maximum in U.S. Government Securities	100% of portfolio
Maximum in U.S. Government Agency Securities	100% of portfolio
Maximum in Prime Commercial Paper	75% of portfolio
Maximum in Certificates of Deposit	50% of portfolio

Maximum in Negotiable Certificates of Deposit	25% of portfolio
Maximum in Government Security collateralized Repurchase Agreements	100% of portfolio
Maximum in Prime Bankers' Acceptances	25% of portfolio
Maximum in Time Deposits	25% of portfolio
Maximum in Domestic Money Market Funds	75% of portfolio
Maximum in Bank in Vermont Program	\$40 million

Maximum 25% in one industry, maximum 10% in any one issuer of commercial paper, corporate securities, or bankers' acceptances.

Approved:



George B. "Jeb" Spaulding
Vermont State Treasurer

2/25/05
Date